



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0166	Title:	Lower state individual income tax rates
Primary Sponsor:	Regier, Keith	Status:	As Amended in Senate Committee

- ☐ Significant Local Gov Impact
 ☐ Needs to be included in HB 2
 ☐ Technical Concerns
☐ Included in the Executive Budget
 ☒ Significant Long-Term Impacts
 ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$26,027,000)	(\$52,950,000)	(\$41,716,000)	(\$43,600,000)
Net Impact-General Fund Balance:	<u>(\$26,027,000)</u>	<u>(\$52,950,000)</u>	<u>(\$41,716,000)</u>	<u>(\$43,600,000)</u>

Description of fiscal impact: HB 166, as amended, would reduce the income tax rate for each bracket of taxable income by two-tenths of a percentage point, beginning in CY 2016. This would reduce income tax revenue by 3.2% per year. Slow taxpayer adjustments would shift part of the initial effect from FY 2016 to FY 2017.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- This bill would lower the income tax rates for each bracket of taxable income by two-tenths of a percentage point. The change would take effect at the beginning of CY 2016.
- The income tax forecasting model was run with the change in rates. The modified model produced the following reduction in tax year liability:

CY 2016	-\$39.040 million
CY 2017	-\$40.833 million
CY 2018	-\$42.598 million
CY 2019	-\$44.603 million

3. The rate reductions would take effect half way through FY 2016. The department would produce new withholding tables to apply beginning January 1, 2016. However, the last time that rates changed in 2005, it appeared to take several months before all employers were using the new withholding tables. Some taxpayers who make estimated payments would immediately adjust their estimated payments to reflect the new rates, but others would take time to make the adjustment. Taxpayers who adjust their estimated payments or have their withholding adjusted would pay less in the second half of FY 2016. Taxpayers whose payments are not adjusted would over-pay in the second half of FY 2016 and would receive larger refunds or make smaller payments with the TY 2016 returns they file in FY 2017. For these reasons, it is assumed that two-thirds of the revenue reduction expected for the second half of FY 2016 would occur in FY 2016 through lower payments and one-third would occur in FY 2017 through larger refunds and smaller payments with returns. The revenue reduction for FY 2016 would be \$26.027 million.
4. In FY 2017, revenue will be reduced by half the tax liability reduction for CY 2016 and half the tax liability reduction for CY 2017. Revenue would also be reduced by the larger refunds and lower payments with returns for taxpayers who did not have payments adjusted to reflect the new rates in CY 2016. The total revenue reduction for FY 2018 would be \$52.950 million.
5. In FY 2018, the revenue reduction would be half the liability reduction for CY 2017 and half the liability reduction for CY 2018, or \$41.716 million.
6. In FY 2019, the revenue reduction would be half the liability reduction for CY 2018 and half the liability reduction for CY 2019, or \$43.600 million.
7. The department would make changes to tax forms and instructions as part of the normal annual update process with no additional costs.

<u>Fiscal Impact:</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Department of Revenue	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<u>Expenditures:</u>				
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	<u>(\$26,027,000)</u>	<u>(\$52,950,000)</u>	<u>(\$41,716,000)</u>	<u>(\$43,600,000)</u>
TOTAL Revenues	<u>(\$26,027,000)</u>	<u>(\$52,950,000)</u>	<u>(\$41,716,000)</u>	<u>(\$43,600,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	<u>(\$26,027,000)</u>	<u>(\$52,950,000)</u>	<u>(\$41,716,000)</u>	<u>(\$43,600,000)</u>

Sponsor's Initials

Date

Budget Director's Initials

Date